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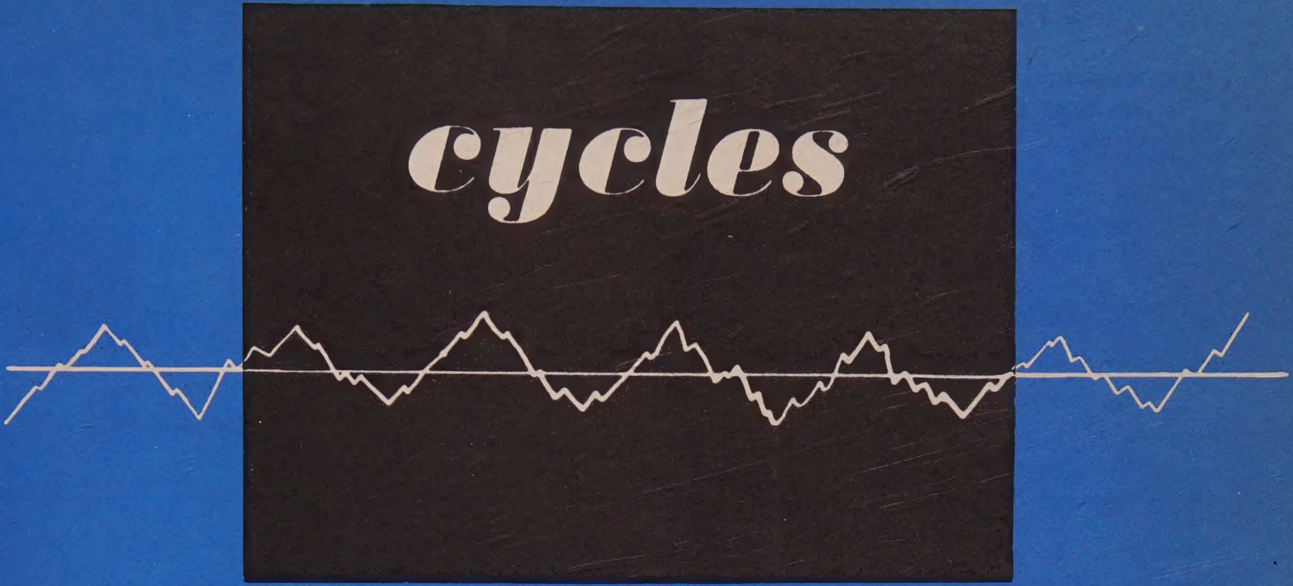

November 1957

FOUNDATION FOR THE STUDY OF CYCLES
New York, New York

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cycles

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VOLUME VIII NUMBER 11 NOVEMBER 1957

THE DIRECTOR'S LETTER

Dear Member:

I wish you could have been with us for the meeting of New England members in Boston on October 8th or for the meeting of the New York Area members in New York on October 10th. I think you would have had a lot of fun. I know I did.

THE NEW YORK AREA MEETING

As both meetings were much the same I'll tell you about the New York Area meeting for the sake of simplicity.

Through the courtesy of Dr. Harold Anthony we met in the Hall of Mammals of the American Museum of Natural History. This is the most colorful place you can imagine. It contains dozens of exhibits, each in large cases with realistic backgrounds. These are so skillfully made that you can hardly tell where foreground ends and background begins. The hall is relatively dark, the exhibits skillfully lighted. As one walks about it is as if one were really on an Alaskan mountain or on an African plain looking off into the distance with cycles far behind one, way off in the United States.

The Get Together

The meeting started off with a get-together at 5:30. There were cocktails for those who wanted them and just fellowship for those who didn't. I tried to greet each member personally as he came in and to introduce each new-comer to as many as possible of the other members, but the meeting was so big and people came in so fast that I could not do all of introducing that I would like to have done. However my wife helped out and, when necessary, took the people away as fast as they came in on sort of a conveyor belt basis!

There were quite a number of guests as well as members and a very pleasant sprinkling of women.

I had the drinks mixed on a 7 to 1 basis. This seemed to be appreciated by everybody. They reciprocated later in the evening by appearing to enjoy my little jokes much more than I am sure they otherwise would have done. A number of people said the drinks were the best they had ever had away from a private home. I do not know of my own knowledge, for I never take anything to drink when I have to conduct a meeting or make a talk.

The Dinner

About 6:30 or quarter of seven we went down to dinner. (Dinner was served by a caterer in the restaurant of the museum.) I was told the dinner was excellent but, as usual at these affairs, I did not eat anything myself. I feel I can do a better job on an empty stomach!

The Meeting

After eating everyone drifted to the lecture hall. We were joined there by a few people who, for one reason or another, could not make the dinner.

I started the meeting by getting those present to vote on a variety of questions. Questions and answers of this sort are the only way in which I can get the feel of what you, as members, want.

The Voting

My first question had to do with the interest in technical matters. I was somewhat surprised at the percentage of those present who were interested in techniques. On the strength of this interest I shall continue the Beginner's Corner. I'll also add, when I can, a short section to tell of the techniques used in the detection and the isolation of the cycles which I tell you about in the various articles.

A number of those present wanted to meet with others to discuss technical matters and to exchange information. Sort of a mutual aid society. I got the names of those who wanted to do this and will place these people in touch with each other.

I would like to see technical groups of this sort in every large city. *Would you be willing to act as a focal point for this purpose in your city?* If so, please send me your name, address, and phone number. I'll publish it. Then those who are interested can get in touch with you and, together, you can go on from there.

The thought was expressed that groups of this sort could buy the course on cycle analysis cooperatively, thus cutting down the cost for each person. This would be a splendid idea.

The Cycle Analysis Course

Incidentally, speaking of the course, we are now just out of the red on this venture. The total costs to date amount to $3,146.36. We have sold 63 sets of material. This amounts to $3,150. In addition, one man was so pleased that he sent in another $50 gratis. Our gains to date are thus $53.64.

The costs were all for labor, material, printing, etc. I contributed my time for nothing and waived royalty.

Chapter Meetings

My next question was a call for volunteers to help organize a local chapter of the Foundation. Here again the response was gratifying.

If we are going to have any more local meetings, the members are going to have to carry some of the load. Neither my office in Pennsylvania nor the publication office in New York has the "horsepower" to put on these meetings as they should be put on.

It's a lot of work to organize a meeting. A place must be found, a menu selected, a certain amount of financial risk must be assumed, invitations must be printed and mailed, at least two printed follow-ups and one telephone follow-up are needed, questions must be answered, etc. etc. Moreover you must charge enough over the restaurant price to cover printing and postage, out-of-pocket expense of the speaker, and so on.

The New York office can supply names of members by city and/or by state, and I will be glad to meet with any group of members anywhere if my travel expenses can be covered, but that's as far as we can go.

Would you like chapter meetings in in your city? If so, let me know the cities or states for which you want names and we'll send them to you so that you can go to work. Don't however ask for "Northern Illinois" for example, or "Northern California", as we haven't the facilities for looking up the location of cities.

Also, names sent to you this way must not be used for mailing out your own advertising.

Contents of our Monthly Report

I was pleased to find that my recent articles spelling out the odds for this and that were quite generally approved. I'll try to do more of this sort of thing in the future.

Judging from the votes, the conversations with my friend Robert Steele are not too popular. Some people actively dislike them; less than 25% thought them an improvement over straight text. I find this odd, for so many people say this cycle business is hard to grasp, and conversation is surely easier than straight text. However, I'll be governed accordingly.

My Talk

I'll not devote any space here to my talk. I'll reproduce the substance of it, either in this issue or a later one, depending upon the availability of space.

QUESTIONS AND ANSWERS

The really interesting part of the evening was the question and answer period. This session lasted until about 10:30. Here are some of the questions and my answers.

Prospects for War

Question: What are the prospects for war?

Answer: I have done no work on cycles in war for several years, so I have nothing new to report.

The work done some years ago was based upon Professor Wheeler's index of inter national battles, 599 B.C. to date. This index fluctuates in major cycles, each about 22 years long. Normal behavior for this cycle is *up* at the present time. That is, if the patterns of the past prevail, we can expect an increase in the number of international battles for the next several years.

There is an 11-year cycle in the number of international battles also. This cycle is likewise on the way up.

The combination of all known war cycles suggests sort of a plateau from 1960 to 1963, but of course this is extremely rough.

Two of my friends who know more about such things than I do expect trouble to start in 1959. Both expect the conflict to be in the middle east, but one of them expects a diversionary episode in the far east first. All of this is beyond my knowledge, but it does fit into what we know about the cycles in international conflict.

Question: The stock market cycles are due for a low in 1960. Wouldn't this more or less contradict the idea of a peak of battles in 1960?

Answer: No. It would fit in. The cycles in international battles seem to be upside down in relation to the same cycles when found in business, stocks, and prices.

Dunbar's 46-Month Cycle in Common Stocks

Question: Dunbar's 46-month cycle calls for a peak in 1959, your work calls for a low in 1960. How do you reconcile the difference?

Answer: My work deals with annual averages; Dunbar's with actual daily highs and lows. Dunbar's work suggested that, if the patterns of the past continued, the high of 1956 would be higher than the low of 1957, the high of 1959 higher than the low of 1957. The first of these two forecasts has come true. The second could come true and the year 1960 as a whole could still be below the year 1959 as a whole.

However, my work has not proceeded far enough to enable me to pin-point the absolute highs and lows. In its present state of development it is intended more for general orientation and to give you the odds favoring any particular pattern.

How Far Down Will Stocks Go?

Question: Stock prices in 1956 went considerably higher than your synthesis indicated. Why did this happen and does it mean that prices will also be correspondingly lower than your projection?

Answer: I don't know what happened, but I suspect it was because of inflation. If this is the reason I would expect the coming low to be *higher* than the projection and by about the same percentage. However all of this is pure guessing. In this connection see chart on page 296 of this issue.

Short Term Cycles

Question: Couldn't you pin point things better if you did more work on shorter cycles?

Answer: I have never had too much luck with short cycles in economic data. I suspect that there are so many that they are too complicated to unscramble in the time I have so far had to work on the problem.

As one of the best substantiated cycles I know about is the 9.18-month cycle in the ton-miles of Canadian Pacific Railway I think we can definitely say there *are* short cycles.

Question: What would you say is the shortest cycles worth investigating?

Answer: They are all worth investigating but I would say that economic cycles shorter than 2 years in length from crest to crest often offer difficulty.

Comment from the floor by Mr. Albert G. Hanak: There definitely are 13-week, 17-week, and 33-week cycles in the stock market figures. I use them in my forecasting work all of the time. They are very helpful.

The Weight to Put on Cycle Forecasts

Question: What weight should we give your cycle forecasts?

Answer: As I explained in my talk, cycle forecasts are in terms of odds. They don't tell you what is going to happen *this* time. They tell you that with the next 10 situations like the present we can look for, let us say, 8 times when there will be a further decline and 2 times when there won't. Whether *this* is going to be one of the 8 times or one of the 2 times must be discovered by other methods. Cycle knowledge is only partial knowledge.

In this connection you will be interested in a little story:

I was talking recently with the top men of a large stock market advisory service. The firm grosses between 1½ and 2 million dollars a year. The chief counselor asked me the same question that you just asked. I countered by asking him what weight he attached to cycle work.

"We read everything you write with the greatest care," he answered, "and let it influence our idea of what's ahead by 33% (later he changed this by 25%). We rely on others for another 1/3 of our thinking and our own work for the remainder."

"I think that's about right." I answered. "although I would be inclined to give the 33% to cycle work rather than the 25%. Certainly it needs to be confirmed by all other possible approaches."

I was interested to note that our little $10 a year report forms so important a part in a service which sells for so large a sum of money!

Journal of Cycle Research

Question: What is the *Journal of Cycle Research* of which you speak from time to time?

Answer: It is a magazine we issue quarterly to carry scientific papers and material a little too heavy or too long for inclusion in *Cycles*.

The current issue is a double one. It is 68 pages long and contains an important article by Dr. Leonard W. Wing called, "Ultra Long Waves and Solar–Terrestrial Relationships." If you are interested in the fundamental aspects of cycle study, I think you would enjoy it.

The Journal costs $4 a year or a $1 a copy. This special issue is considered as two copies and costs $2.

The next Journal will be a 40-page book and will contain an article by Hugh P. King digesting all references he could find to cycles in financial data.

The Geisinger Indicator

Question: What is the meaning of that little bar in February of 1957 which runs in the Geisinger Indicator from -2 to +1?

Answer: The bar indicates the limits within which the Modified Geisinger Indicator will fall unless some of the components already published are modified. The Modified Geisinger Indicator, when projected, turned up in November 1957, but this does not have any particular significance. Mr. Geisinger feels that his Indicator does not signify a move in either direction until it passes plus or minus 3.

Incidentally, did you know that the Geisinger Indicator is also available as a special first class mail service for an extra $3 a year? This special service gives you the Indicator values about a month before you get them in the regular way. If you want this special service, send $3 to our publication office 680 West End Avenue, New York 25, New York.

Question: Why can't you tell us just how the Geisinger Indicator is computed?

Answer: Because I have this information in confidence from Mr. Geisinger and am not at liberty to disclose it.

What Determines the Contents of *Cycles?*

Question: What determines the contents of *Cycles?*

Answer: I try to keep you pleased—so that you will renew—so that we won't have to fold up!

Our renewal rate at the moment is 50.8% That is, of the members on our books a year ago, half have died, moved without leaving an address, resigned, been dropped for non payment of dues! Right now we have 7,000 members. At the current rate of loss, 3,500 will not be with us a year from now.

To replace these will require us to send out 350,000 letters next year. That means 7,000 letters a week. Did you ever see 7,000 letters, all stuffed, addressed, stamped, and in a pile to be mailed? It's quite something for a little office like ours.

To send out these letters will cost us about $40,000. They will bring in $35,000. We will thus lose $5,000, right off the bat. In addition we will have to send the new members the magazine *Cycles* for a year without recompense. (Cost, at 1956 rates, $16,170.). On the other hand, if these new members renew we begin to get some of this money back; so you see how important it is that we keep you happy, new members as well as old!

Cordially yours,

Edward R. Dewey

Edward R. Dewey
Director

Research

WHAT'S AHEAD FOR RESIDENTIAL BUILDING CONSTRUCTION?

THIS article will discuss the cycles in contracts awarded for residential building construction as measured in dollars and as reported by the F. W. Dodge Corporation.

These figures are characterized by a strong 12-month or seasonal cycle, a 2 3/4-year cycle, other cycles not yet definitized, randoms, and trend.

The seasonal cycle of course goes up and down each year. The 2 3/4-year cycle of course crests every 2 3/4 years. It is now on its way up. It is due, ideally, to crest in March of next year (1958). The trend--that is, the underlying tendency which changes its direction but slowly—is downward at the present time. As best I can determine it, it turned down in September 1956. The net of these factors suggests that the dollar value of residential building construction in 1958 will be about the same as in 1957, or perhaps a shade (6%) higher. See Fig. 1.

The Seasonal Cycle

The 12-month or seasonal cycle has its

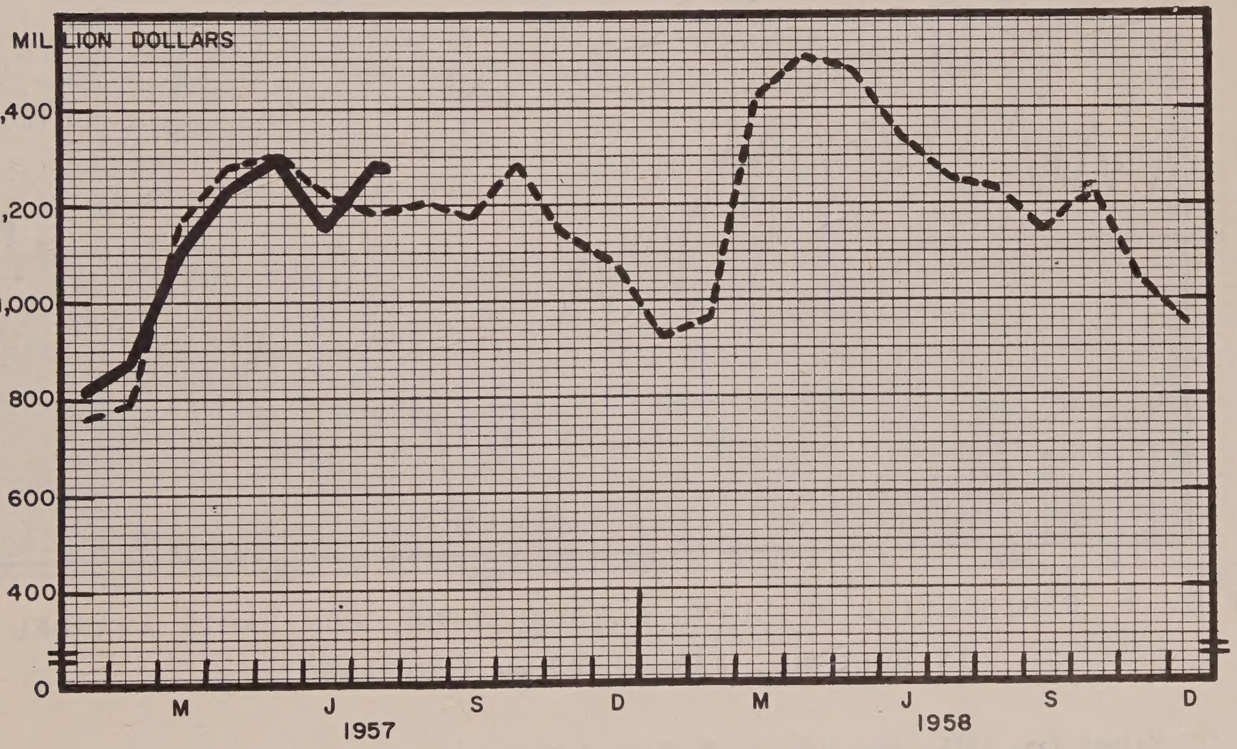


FIG. 1. RESIDENTIAL BUILDING CONSTRUCTION, CONTRACTS AWARDED IN 48 STATES IN DOLLARS, JAN. 1957 -- AUG. 1957.

Together with synthesis of estimated trend, seasonal cycle, and 32.3-month cycle, January 1957 — December 1958.

low, ideally, in January of each year. It crests ideally in April-May of each year. Typically, the contracts awarded in January are 74.2% of the average for the year. On the average the contracts awarded in April-May are about 118% of the average for the year.

The values of the seasonal pattern for each of the 12 months, as best I am able to determine them, are as follows:

Table 1

Month	%	Month	%
January	74.2	July	103.9
February	75.6	August	104.1
March	109.4	September	99.2
April	118.3	October	107.2
May	118.1	November	93.7
June	109.2	December	87.1

The 2 3/4-Year Cycle

The 2 3/4-year cycle has its lows, ideally, 32.3 months apart; its crests of course, likewise. The date of the last ideal low was November, 1956, (1956.87) the next ideal low will be in July, 1959, the one after that will be in April, 1962. The current crest comes ideally in March, 1958 (1958.21); the next one comes ideally at November-December, 1960.

The strength of the 2 3/4-year cycle at ideal month of crest is 115% of trend, at ideal month of trough is 85% of trend. Values for any month can be computed easily by simple arithmetic.

The values from November 1956, the date of the last trough through July 1959, the date of the next trough, in % of trend, are as follows:

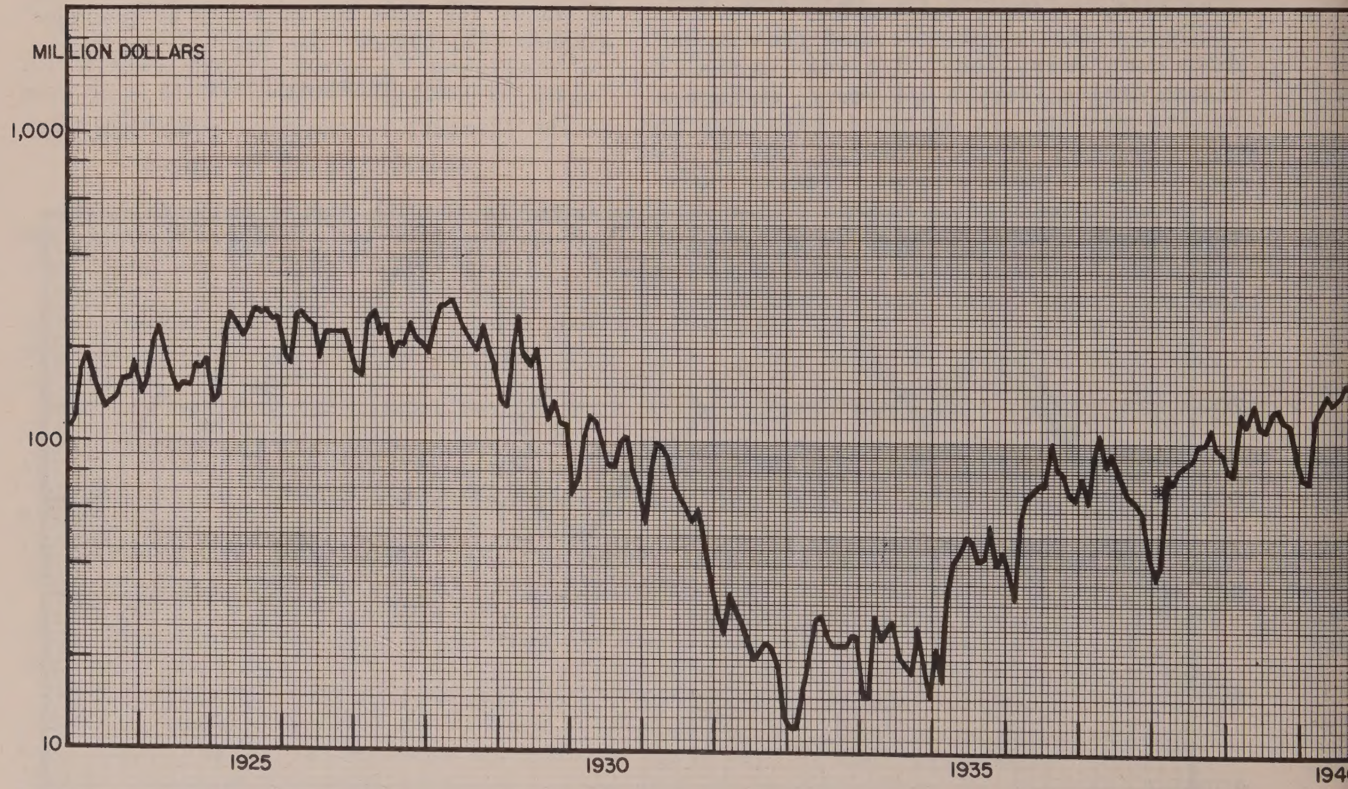


FIG. 2. RESIDENTIAL BUILDING CONSTRUCTION, CONTRACTS AWARDED IN DOLLARS, JAN. 1923 — AUG. 1957.

Values Jan. 1925 - May 1956, F. W. Dodge Corp. contracts awarded in 37 states. Values 1923 and 1924, F.R.B. index adjusted to be comparable. Values from June, 1956 to date Dodge Corp. Contracts awarded in 48 states x.86 to make them comparable with the 37-state figures. *Ratio Scale.*

Table 2

Month		%	Month		%
Nov.	1956	85.1	Apr.	1958	113.3
Dec.	1956	87.0	May	1958	111.5
Jan.	1957	88.8	June	1958	109.6
Feb.	1957	90.7	July	1958	107.8
Mar.	1957	92.5	Aug.	1958	105.9
Apr.	1957	94.4	Sept.	1958	104.9
May	1957	96.2	Oct.	1958	102.2
June	1957	98.1	Nov.	1958	100.3
July	1957	100.0	Dec.	1958	98.5
Aug.	1957	101.8	Jan.	1959	96.6
Sept.	1957	103.7	Feb.	1959	94.8
Oct.	1957	105.5	Mar.	1959	92.9
Nov.	1957	107.4	Apr.	1959	91.0
Dec.	1957	109.2	May	1959	89.2
Jan.	1958	111.1	June	1959	87.3
Feb.	1958	113.0	July	1959	85.5
Mar.	1958	114.8			

As you can see, the 32.3-month cycle is almost as strong as the seasonal cycle, but, unfortunately, it is much less well known.

Trend

Trend is obtained by adjusting the construction figures for the seasonal and 32.3-month cycles, smoothing the residual, and projecting it in the way it is now going. Trend should be re-computed every month or so and projection revised accordingly.

The Actual Figures

Fig. 2 charts the actual values of residential building contracts awarded, January 1923 to date.

The values January 1925—May 1956 are contracts awarded in 37 states. The values

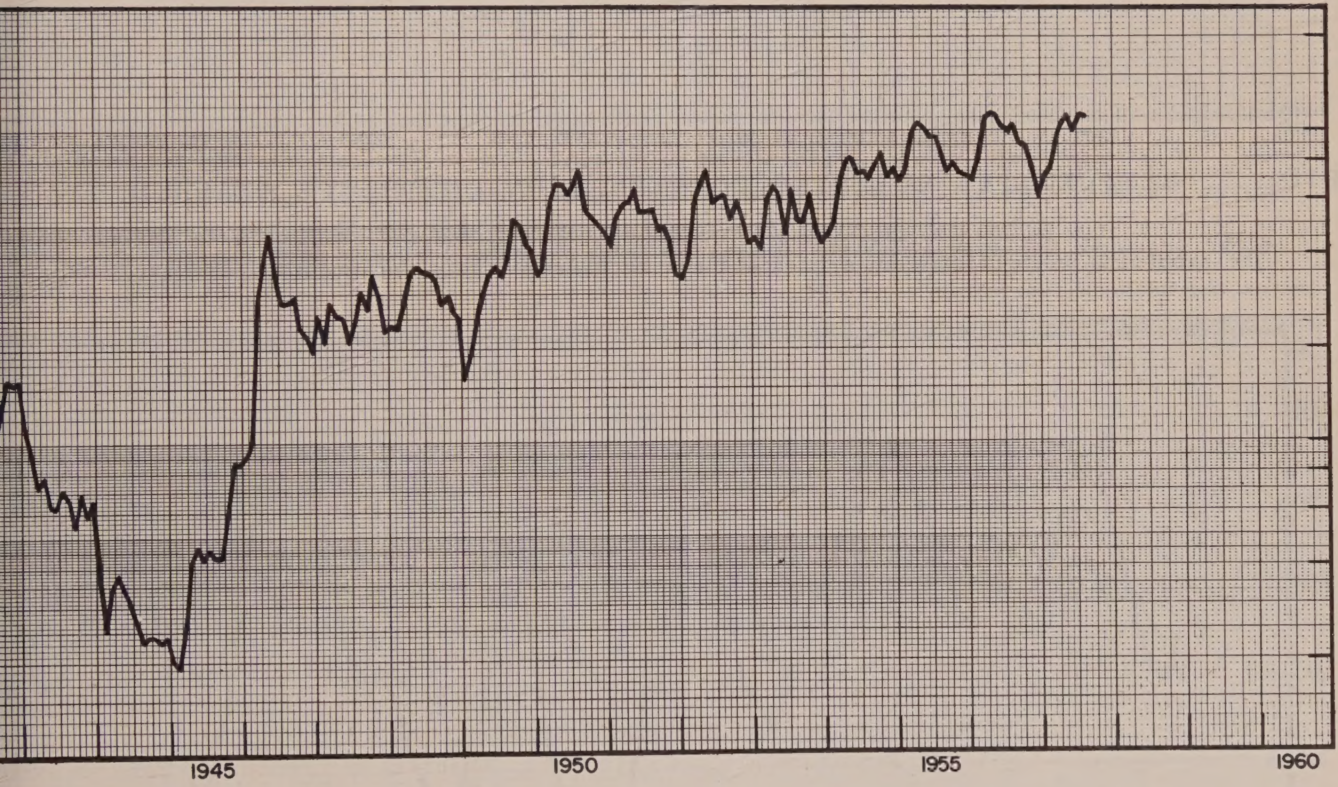


FIG. 2 continued

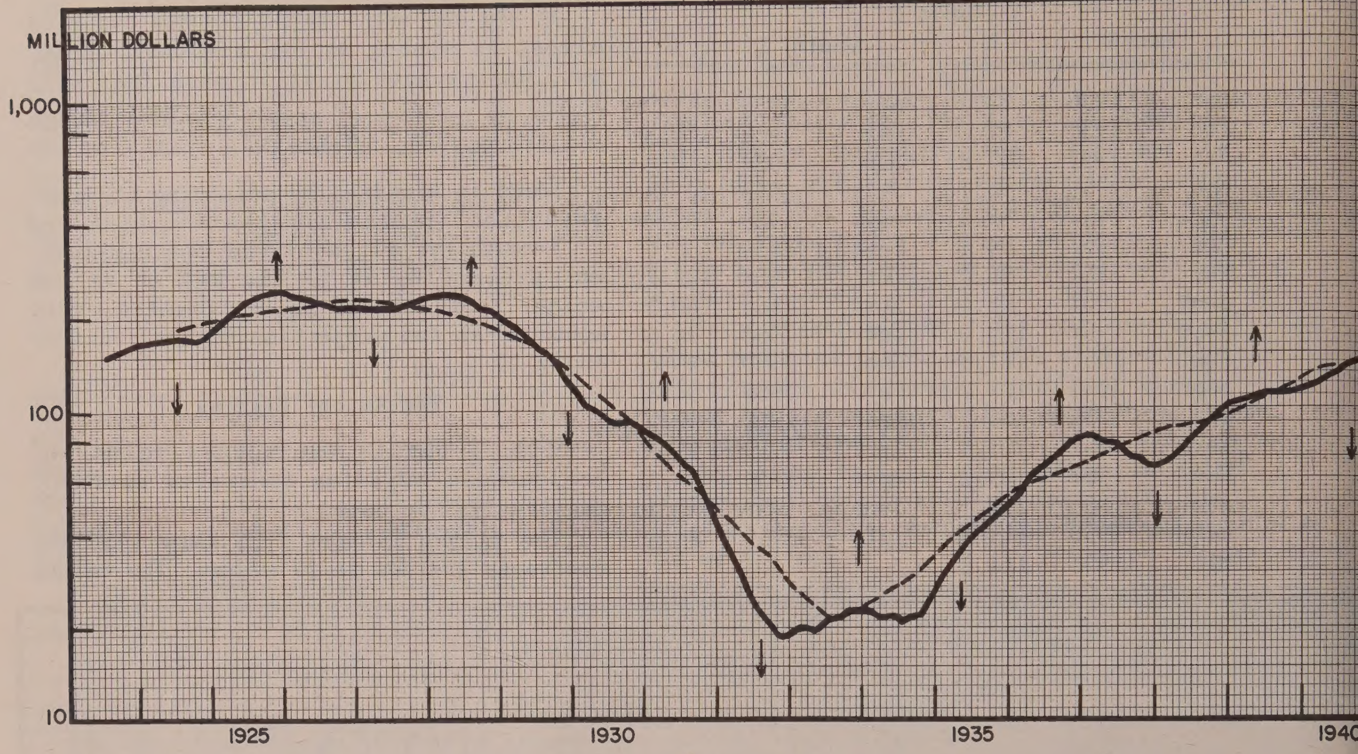


FIG. 3. RESIDENTIAL BUILDING CONSTRUCTION CONTRACTS AWARDED, JAN. 1923 — AUG. 1957, SMOOTHED.

The smoothing was effected by a 12-month moving average. This manipulation eliminates the seasonal variation.

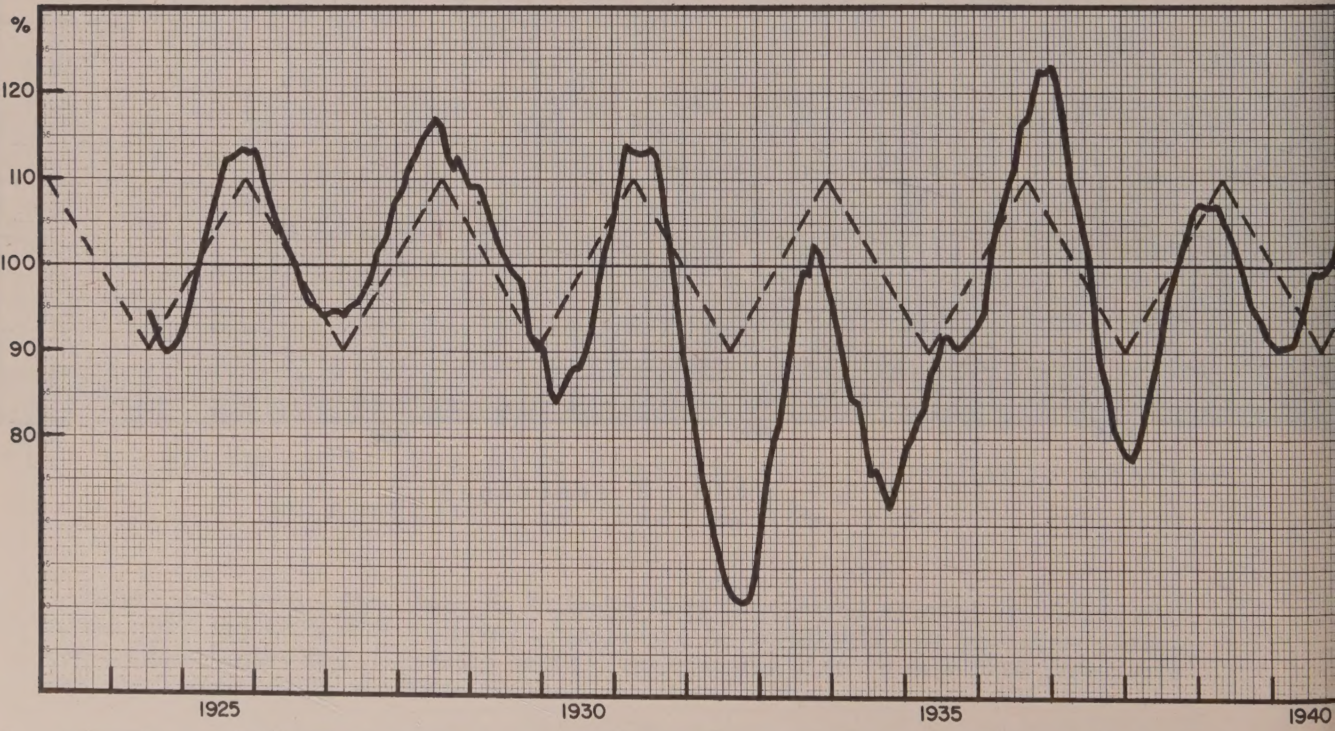
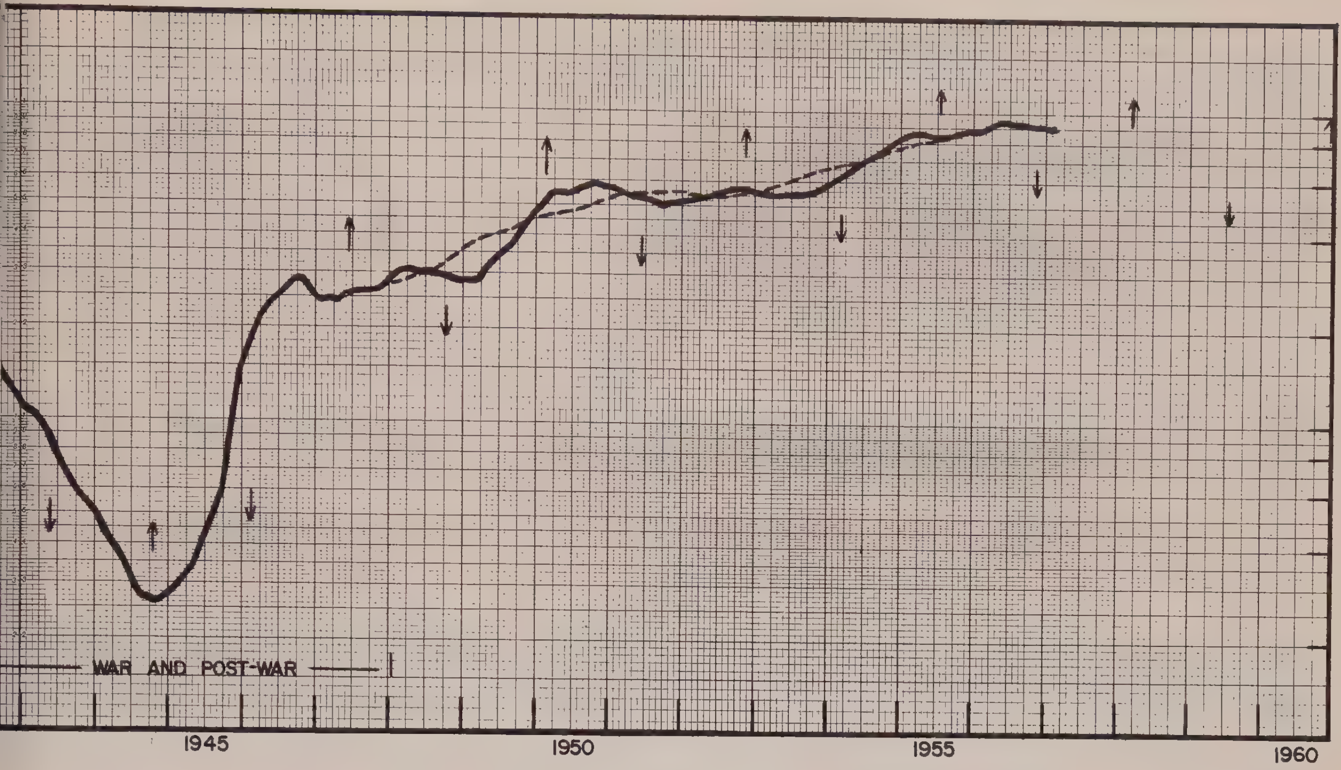
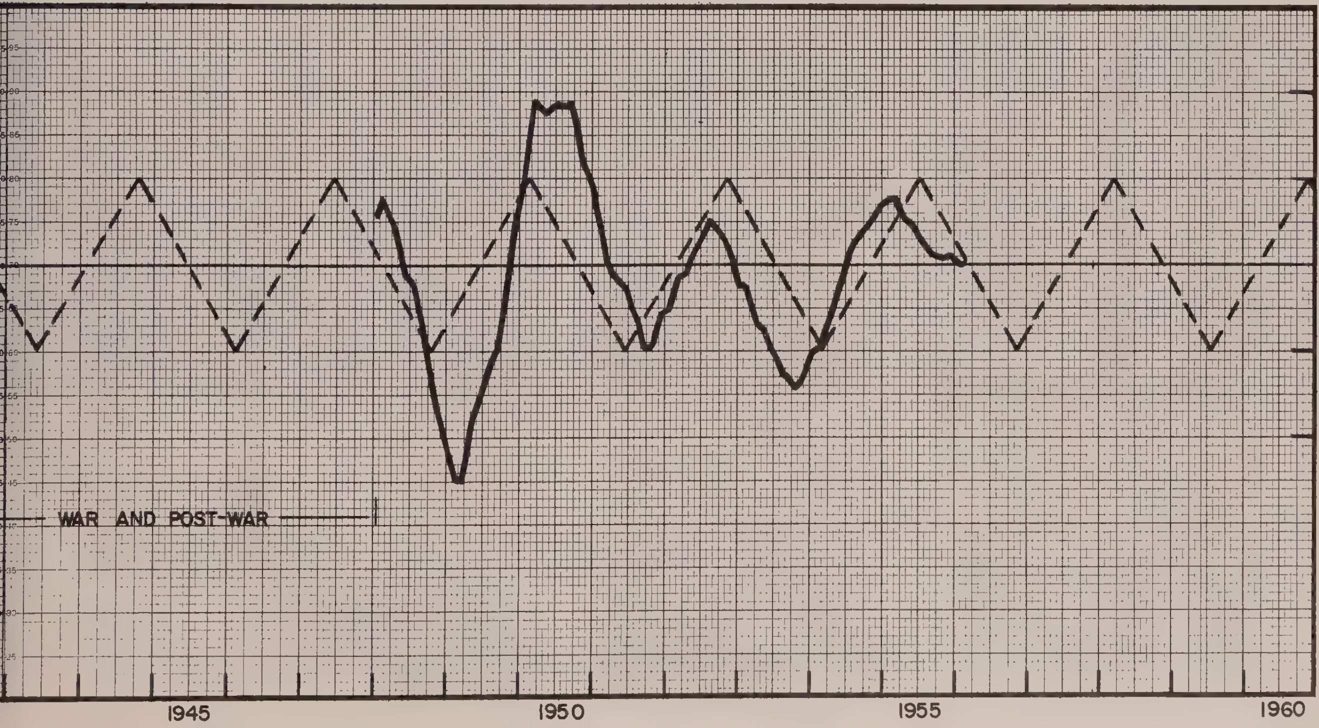


FIG. 4. THE 2 3/4-YEAR (32.3-MONTH) CYCLE IN RESIDENTIAL BUILDING CONSTRUCTION CONTRACTS AWARDED, JAN. 1923 — AUG. 1957.



The broken line represents trend (a 37-month moving average of the data), except for the period of war distortion.

Arrows mark times of ideal crests and troughs of 2 3/4-year (32.3-month) cycle. *Ratio Scale.*



The solid line charts the percentages by which the 12-month moving average values are above or below the trend. The broken line is a perfectly regular 32.3-month periodicity. It diagrams the ideal 32.3-month cycle.

1923 and 1924 are the F. R. B. Index numbers, adjusted to make them comparable. The values, June 1956 to date are contracts awarded. 48 states x .86.

The seasonal pattern is apparent by inspection. Its characteristics over the period, and in each part of the period, were found to be as stated above.

The 2 3/4-Year Cycle in Detail

Because of the strong seasonal pattern the 2 3/4-year cycle cannot be seen easily by inspection of a chart of the raw figures. There are two ways in which seasonal can be removed. The easiest is a simple 12-month moving average. To compute such a moving average you get the average value for January through December of 1923, and plot the result midway between June and July of 1923. Then you get the average of the values February 1923 through January 1924, and plot the result midway between July and August of 1923; and so on. For a chart of such a 12-month moving average of residential construction contracts awarded see Fig. 3.

Fig. 3 also shows the underlying trend (a 37-month moving average) and indicates the period of World War II.

The 2 3/4-year cycle is visible by simple inspection, except in the war and immediate post-war period.

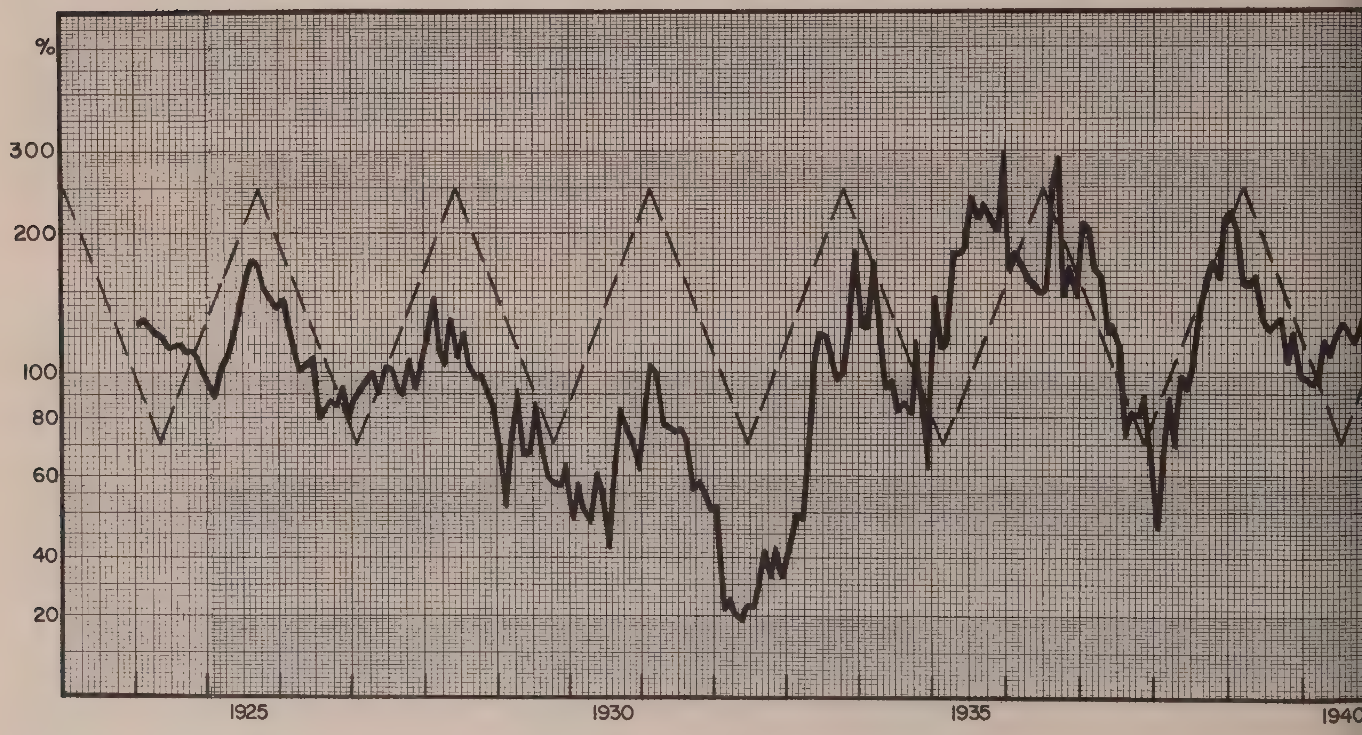


FIG. 5. RESIDENTIAL BUILDING CONTRACTS AWARDED — PERCENT ABOVE OR BELOW THE SAME MONTH ONE YEAR BEFORE.

The broken line is a perfectly regular 32.3-month periodicity. It diagrams the ideal 32.3-month cycle in the percent change figures. *Ratio Scale.*

The 2 3/4-year cycle can be seen even better if we compute the percentages by which the smoothed contracts awarded figures are above or below the trend. These percentages are shown in Fig. 4, except for the period of war and post war distortion.

In Fig. 4 a 2 3/4-year (32.3-month) zigzag has been added to guide your eye. Note how regular the cycle is and that after World War II the waves reverted to the old pattern, established prior to the war.

Percent Changes from Year to Year

Another way to get rid of the seasonal variation so we can see the 2 3/4-year more plainly is to compute and plot the percentages that the values for each month are of the same month a year ago. There values have been computed and are shown in Fig. 5.

The broken zigzag in Fig. 5 diagrams the 2 3/4-year (32.3-month cycle) in the percent change figures. Note that the turning points in the percent change figures come about 2 months ahead of the turning points in the 12-month moving average.

Discovery of the 2 3/4-Year Cycle

The 2 3/4-year cycle was discovered in 1939 by Professor Pearson of Cornell University. Except for the period of war

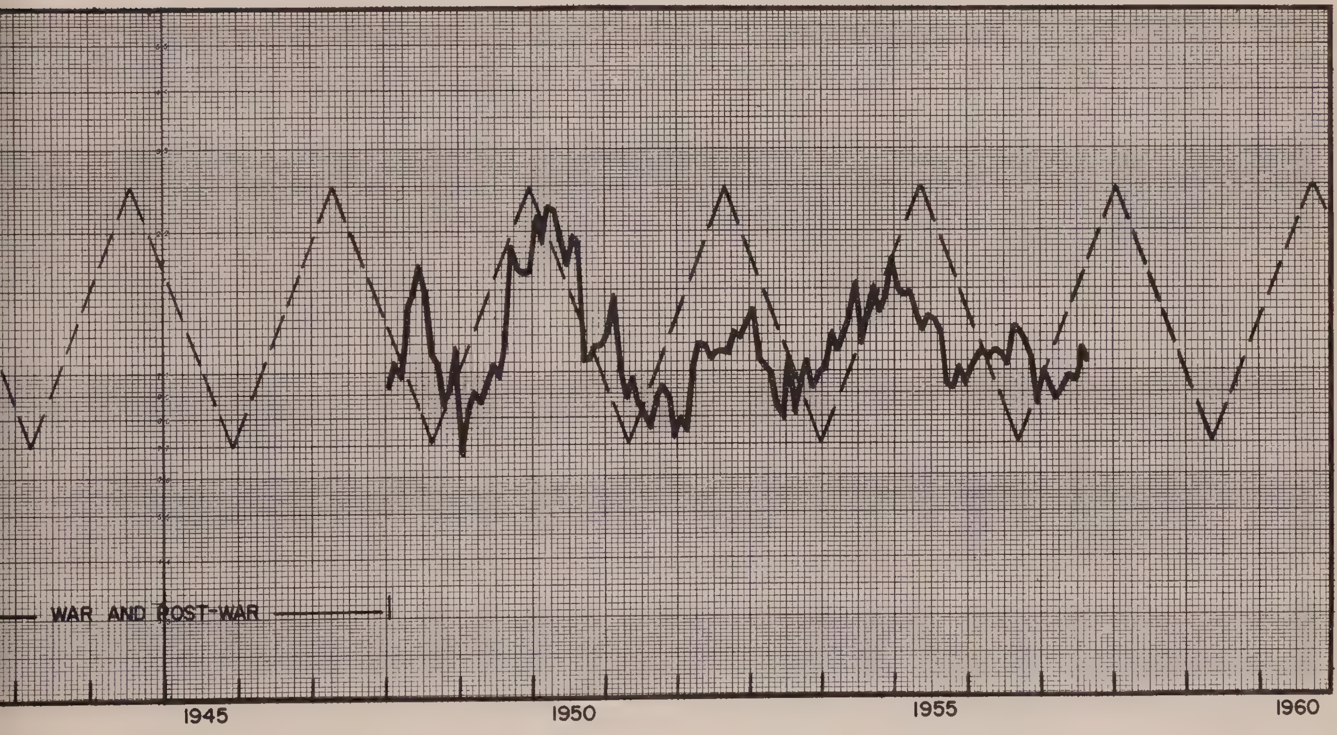


FIG. 5 continued

distortion, this cycle in these figures has been coming true ever since.

Professor Pearson thought that the length of the cycle was exactly 2 3/4 years - 33 months. However, studies of this same cycle in pig iron and copper prices back to 1784, and in the longer series of residential construction figures now available, show that the length is a fraction of a month shorter. The length of 32.3 months is as near as I can come to the true length of this cycle.

The Trend in Detail

To know what's ahead for residential building contract awards you must know the underlying trend as well as the cycles.

When you have one or more rhythmic cycles present in a series of figures, the *only* way to know what the underlying trend is at the present time is to adjust the values for the cycles, what is left is trend, other cycles, if any, and randoms.

Fig. 6 shows the values of residential building construction awards January 1951—July 1957 adjusted to eliminate the effect of the seasonal and the 32.3-month cycles. This curve represents trend, other cycles and randoms.

The broken line running through the middle of Fig. 6 represents a 12-month smoothing of these figures. The behavior of this smooth trend line for the past several months suggests that the underlying trend

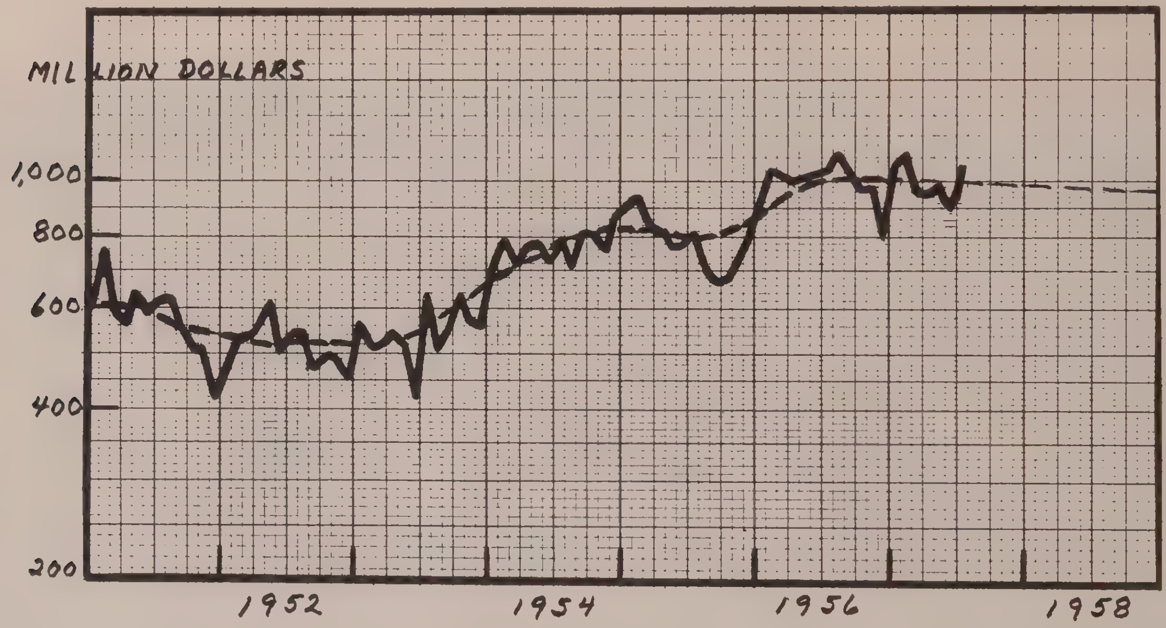


FIG. 6. TREND

Solid line, January 1951—July 1957, value of residential construction contracts awarded. 37 states, adjusted for seasonal and 32.3-month cycles.

Broken line, 12-month moving average values of these values, and projection.

Only by adjusting for the cycles can you know what the trend is now. Knowing what the trend is now helps you to know what the figures will do in the future as the trend is that component which, by definition, changes its direction but slowly.

Note however that trend does change direction. Therefore it can be projected only a short distance into the future and must be revised every month or two. A projection of 2nd quarter 1955 trend would have been 25% below the true value for 4th quarter 1956 unless quickly corrected.

Note further that the values given above give trend for 37 states. These values have been prorated upward to give the trend values for 48 states given in Table 3. *Ratio Scale.*

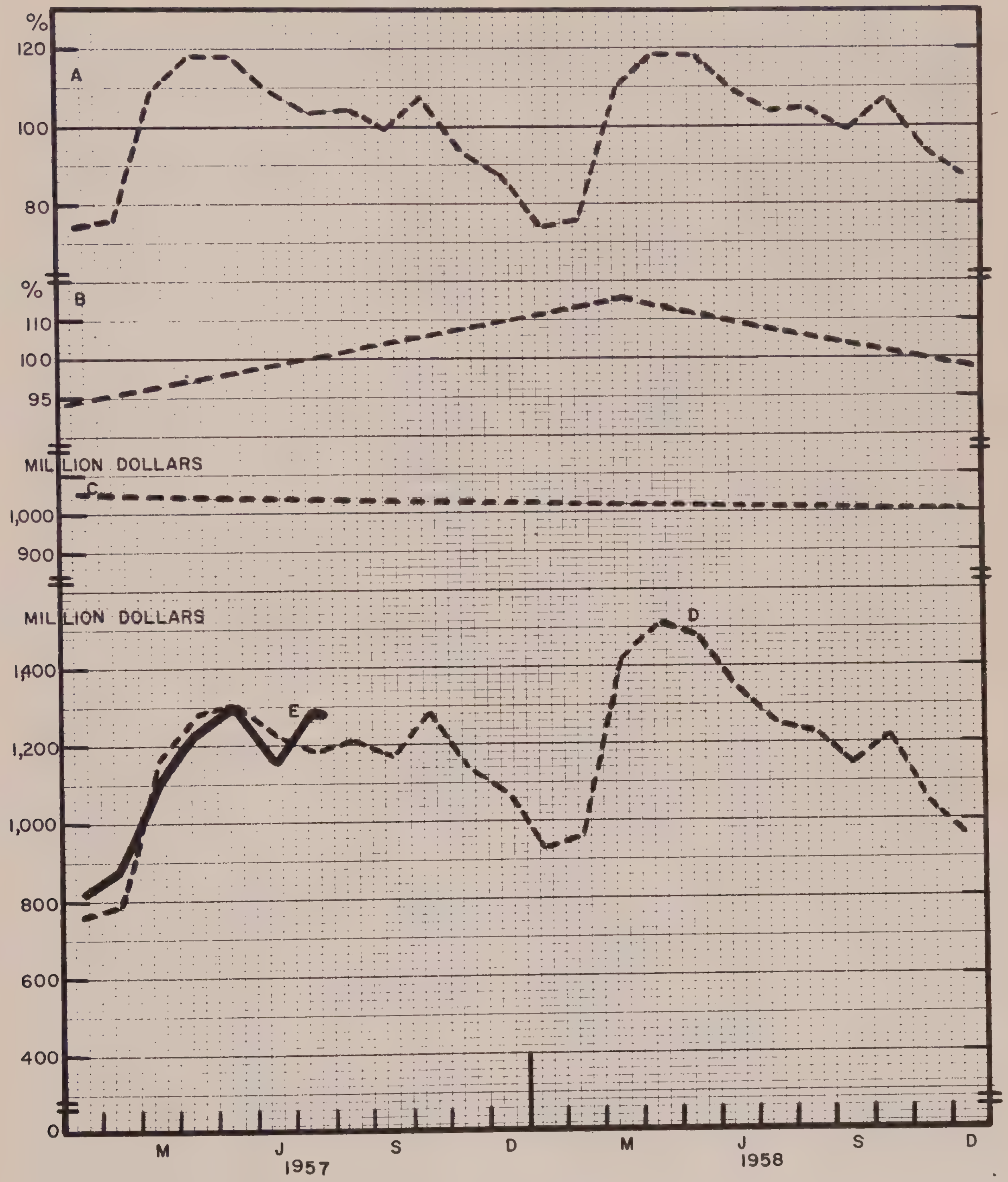


FIG. 7. THE SYNTHESIS JAN. 1957--DEC. 1958

Curve A. The seasonal pattern, in percent.
Curve B. The 32.3-month pattern, in percent.
Curve C. The trend, in dollars.
Curve D. The synthesis of A, B, and C. (C x A/100 x B/100).
Curve E. Actual awards, Jan. 1957--Aug. 1957.

is gently downward, as projected to December 1958 by the light broken line.

This trend line needs to be recomputed each month for the most accurate projection.

The Projection

The projection is merely a synthesis of trend, seasonal, and 32.3-month cycles, as shown in Fig. 7.

The seasonal pattern and the 32.3-month cycles can be projected indefinitely into the future, but, until longer cycles are isolated, we must grope our way along the trend. That is why I have not ventured to project a pattern past December 1958.

The values going into the projection and the actual contracts awarded so far this year are shown in Table 3 below.

The Odds—Seasonal

The seasonal pattern has almost always prevailed. Since January 1923, the earliest available figures, and excluding the period of war and post-war distortion (January 1942 - Dec. 1947), April has always been above the previous January. January has all but twice been below the previous April. The odds, barring war, are thus 26 to 2 that the value of construction contracts awarded January 1958 will be *below* the value of contracts awarded April 1957 ($1,232,000). The odds, barring war, are 29 to 0 that the contracts awarded in April 1958 will be *above* the value of the contracts awarded January 1958.

Qualifications

The odds given above, and all future odds given in this article, assume that the figures for all 48 states, as now reported, will behave the same way as the figures for 37 states, as reported previously.

All odds are based on figures excluding

TABLE 3

Residential Building Contracts - Actual & Synthesis

48 STATES • MILLIONS OF DOLLARS

Date		Trend	Seasonal Pattern	32.3 Months Wave	Trend x Seasonal x 32.3-Month Wave	Actual
1957	Jan.	1.156	74.2	88.8	762	$817
	Feb.	1.153	75.6	90.7	791	875
	Mar.	1.151	109.4	92.5	1.165	1107
	Apr.	1.150	118.3	94.4	1.284	1232
	May	1.148	118.1	96.2	1.304	1297
	June	1.145	109.2	98.1	1.227	1155
	July	1.143	103.9	100.0	1.188	1287
	Aug.	1.142	104.1	101.8	1.210	1284
	Sept.	1.140	99.2	103.7	1.173	
	Oct.	1.137	107.2	105.5	1.286	
	Nov.	1.135	93.7	107.4	1.142	
	Dec.	1.134	87.1	109.2	1.079	
1958	Jan.	1.131	74.2	111.1	932	
	Feb.	1.129	75.6	113.0	965	
	Mar.	1.127	109.4	114.8	1.415	
	Apr.	1.126	118.3	113.3	1.509	
	May	1.123	118.1	111.5	1.479	
	June	1.121	109.2	109.6	1.342	
	July	1.119	103.9	107.8	1.253	
	Aug.	1.117	104.1	105.9	1.231	
	Sept.	1.115	99.2	104.0	1.150	
	Oct.	1.113	107.2	102.2	1.219	
	Nov.	1.110	93.7	100.3	1.043	
	Dec.	1.109	87.1	98.5	951	

World War II and the immediate post-war period (Jan. 1942-Dec. 1947). The phrase "barring war" is therefore to be understood in respect to all projection of odds into the future.

All odds are based on the assumption that the seasonal cycle and the 32.3-month cycle are significant cycles and that they will continue in the future as in the past

The Odds—32.3-Month Cycle

In the same way we can evaluate the odds that the 32.3-month cycle will prevail, We can do it in two different ways. We can find the odds by which the *year* centering on the month of high will be above the year centering on month of low. We can find the odds by which the *month* of high will be above the month one year previous. Let us first consider the odds involving the *year* of high.

The Odds in Respect to the Year of High Based on the 32.3-Month Cycle and My Estimate of Trend.

The record gives us 9 highs. Eight of these have been above trend (a 37-month moving average). The odds are therefore 8 to 1 that the twelve months centering on March 1958 will be above trend at that time.

My estimate of trend for March 1958 is $1,126,700,000. If this estimate is correct the odds are 8 to 1 that the value of residential building contracts awarded for the year centering on that date will exceed $13,520,400,000 (12 times $1,126,700,000).

The percentage amounts by which previous years centering on month of high have been above trend are as follows:

Rank	Year Centering On	Percent Above Trend	
Greatest	Sept. 1936	17.0	
2nd "	Aug. 1928	16.2	
3rd "	Feb. 1950	13.5	Majority Range
4th "	Dec. 1925	13.3	
5th "	Apr. 1931	13.0	
6th "	May 1939	5.0	
7th "	July 1955	3.0	
8th "	Nov. 1952	2.6	
Least	Dec. 1933	-1.3	

As you can see, the worst that ever happened is -1.3% (i.e. 1.3% *below* trend). The best is 17.0% above trend. In the majority of instances the cycle has resulted in excesses above trend of from 3% to 13.5%.

These percentages can be converted into dollars, *based on my estimate of trend for March 1958*. These values are:

Rank	%	Projected Values in Billions	
Greatest	17.0	$15,819	
2nd "	16.2	15,711	
3rd "	13.5	15,346	Majority Range
4th "	13.3	15,319	
5th "	13.0	15,278	
6th "	5.0	14,196	
7th "	3.0	13,926	
8th "	2.6	13,872	
Least	-1.3	13,345	

Thus, *if my guess of trend is correct*, the construction contracts awarded in 48 states, according to the F. W. Dodge Corp. figures, for the year centering on March 1958 will most probably be $14,756,000,000 (the average amount over the trend), 5 to 4 it will lie between $13,926,000,000 and $15,346,000,000; and will certainly lie between $13,345,000,000 and $15,819,000,000 unless the limits of the past 44 years are exceeded. (of course they may be. Remember that these limits, when they came, exceeded all previous limits.)

Remember too that my guess of trend is made without benefit of "brains". It merely projects into the future the way the trend is going now. By using brains you may be able to make a much better guess. If so, do so, and apply the cycle percentage to *your* trend.

The Odds in Respect to the Year of High; 32.3-month Cycle, Regardless of Trend

What are the odds *regardless of trend* that the year centering on March 1958, the next ideal year of high of the 32.3-month cycle, will be above the year centering on November 1956, the last ideal year of low of this cycle?

Of our 9 past examples, the cycle dominated in 8 instances. The percentage gains from year centering on month of low to year centering on month of high, *regardless of whether the underlying trend was up or down,* are as follows:

Rank	Year Centered on	Percent above year Centered on 16 months (½ of 32 month) previous	
Greatest	Sept. 1936	100.0%	
2nd "	Feb. 1950	85.4	
3rd "	May 1939	68.2	Majority Range
4th "	Dec. 1925	39.1	
5th "	July 1955	34.2	
6th "	Dec. 1933	4.5	
7th "	Aug. 1928	3.7	
8th "	Nov. 1952	0.2	
Least	April 1931	-38.0	

If you wish, you can translate these percentages into dollars, to get the probabilities of the future, *regardless of what trend does.* The contracts awarded in the year centering on Nov. 1956, the last ideal month of low, were $12,601,000,000. This is the base to which you would apply

The Odds in Respect to the Month of High Compared with a Year Earlier.

Another way of looking at the probabilities in respect to the value of residential building contracts to be awarded is to see the odds that the *monthly* high will be higher than a year before - that is, that March 1958 will be higher than March of 1957. Based on our record these odds are also 8 to 1.

We can go further. We can tabulate the various percentages over the year before that have prevailed at month of ideal 32.3-month cycle high. These are as follows:

Rank	Date	Percent above 12 months before
Greatest	Sept. 1936	92.9
2nd "	Feb. 1950	87.0
3rd "	Dec. 1933	84.6
4th "	May 1939	61.4
5th "	Dec. 1925	38.9
6th "	July 1955	28.7
7th "	Nov. 1952	18.9
8th "	Aug. 1928	2.4
Least	Apr. 1931	-22.0

As we know the value for March 1957 ($1,107,000,000) we can apply these percentages to get the most probable value for March 1958. It is 38.9% above the March 1957 value or $1,538,000,000. This is somewhat higher than my guess of $1,415,000,000, chiefly because the year to year comparisons are influenced by what has been generally an upward growth trend, whereas the trend at the present time (and in consequence my projection) is based on a declining trend.

Trend Again

When we know the cycle we can know what the trend is *now.* By definition the trend is that component of our figures that varies its direction but slowly. *But it does vary its direction.* Suppose it has been going gently down, as at present. Any month it may start to do *down faster;* it may start to go *up.* Trend projection, like the way you point your automobile, needs to be changed *constantly* as the road unfolds. I therefore plan to watch the trend for you and give you revised figures as soon as the need of change becomes apparent.

Edward R. Dewey

Note: This article is a postscript to the discussion of the 2 3/4-year cycle in residential building construction on pages 135 and 136 of *Cycles - The Science of Prediction,* a book by Edward R. Dewey and Edwin F. Dakin.

WHAT'S AHEAD FOR COMMODITY PRICES?

COMMODITY prices, are due to go down, if there is significance to the past association between (a) addition to gold stocks and (b) wholesale prices, as reported by Professors Gans, Myers, and Pearson of Cornell University.

Refer to the chart below, reproduced from *Farm Economics* for July 1957 which shows that from at least 1873 to date prices (in gold) of 30 basic commodities have tended to follow by about 13 years the percentage addition to world monetary stocks of gold.

As the additions to monetary stocks of gold have been going down rapidly since about 1943, the inference is that, if history repeats itself, prices will tumble from about 1956 to 1963.

This chart is a bit out of our field, for we are concerned with *rhythmic* cycles—waves which have repeated enough times to suggest that the *rhythm* or regularity of wave length has significance. However, as the chart is so arresting and thought-provoking I decided to reprint it for you, notwithstanding.

Further study of the rhythmic cycles in this area is called for. *E.R.D.*

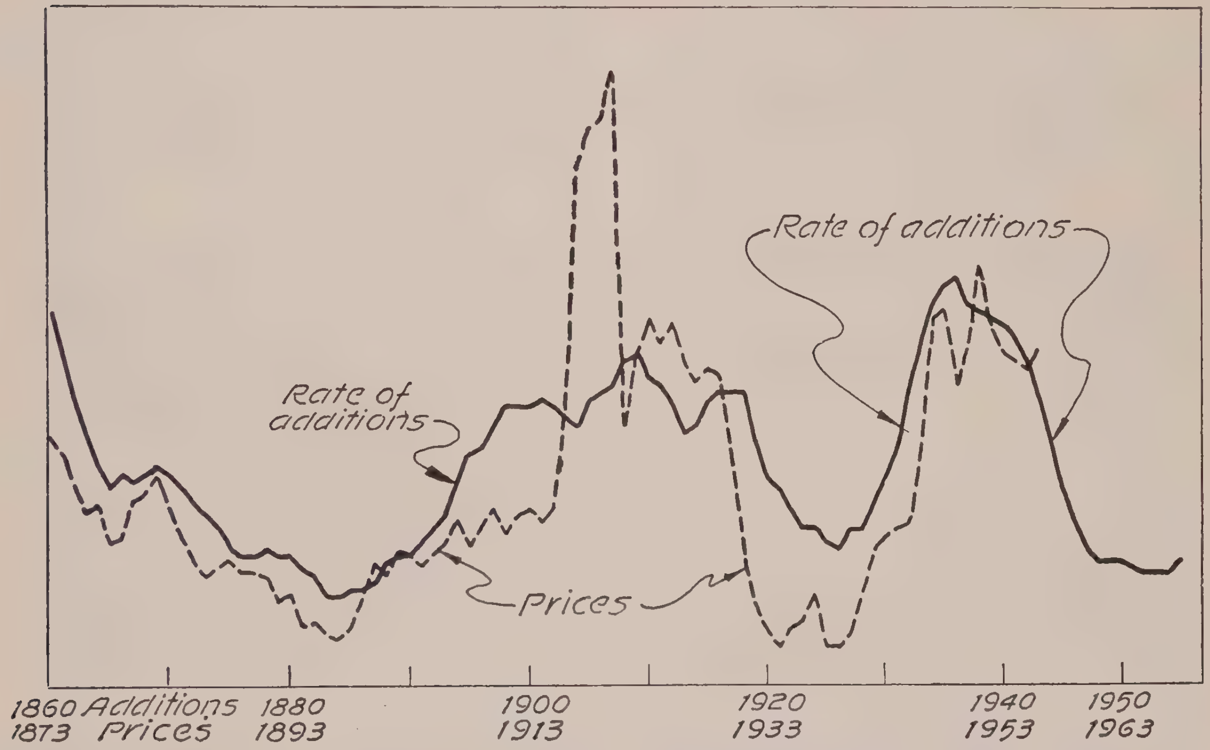


FIGURE 4. ANNUAL ADDITIONS TO WORLD MONETARY STOCKS OF GOLD IN PER CENT OF EXISTING STOCKS AND WHOLESALE PRICES OF THIRTY BASIC COMMODITIES IN GOLD, THIRTEEN YEARS LATER, UNITED STATES, 1860–1956

Additions are five-year averages centered on the fifth year
Commodity prices are annual, thirteen years later

There is a strikingly close relationship between changes in additions relative to stocks and commodity prices thirteen years later.

During recent years commodity prices have been perched on a high level supported by previous large accumulations of gold stocks. For a decade, however, additions have approximated all-time lows. If history repeats itself, the unparalleled rosy hue that has suffused agriculture and industry in this nation and throughout the world during the fifties will fade away like a beautiful rainbow.

Letters

THREE POINTED QUESTIONS

The other day I got a letter from Mr. Arthur Dolben of Reading, Massachusetts, which asked three questions which seem to me to be of general interest. With his permission I am quoting his letter in full, interspersing my answers after each question.

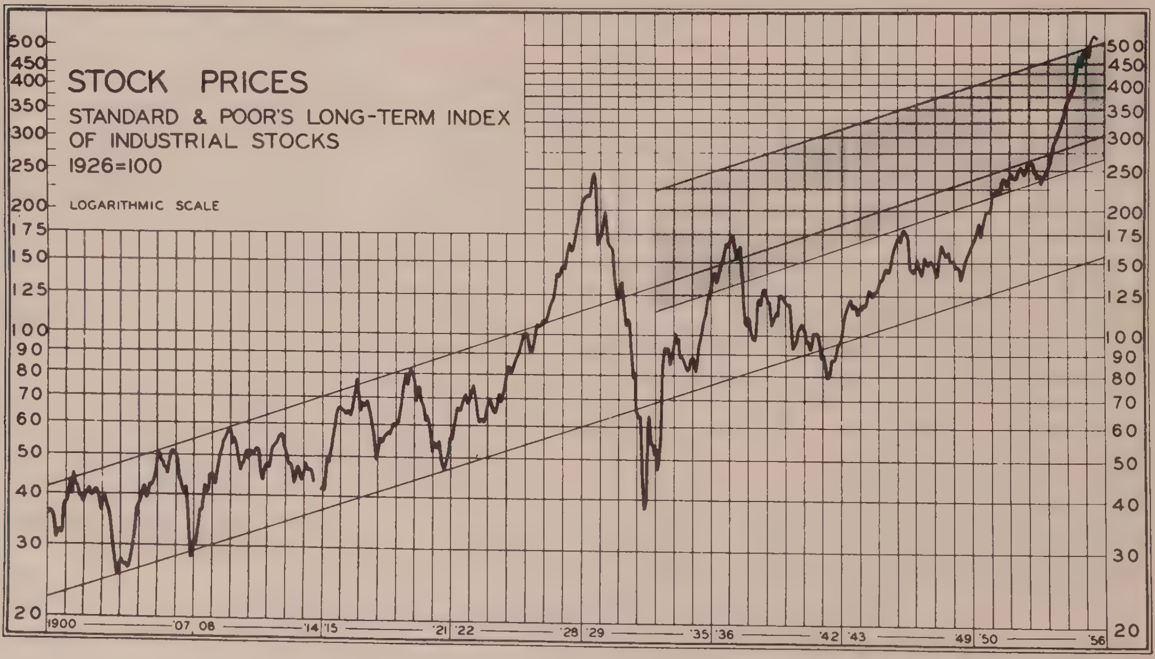
Mr. Dolben's Letter

Dear Sir:

Your thought provoking publication raises some questions in my mind and I would appreciate it if I could have your comments on the following:

Question No. 1

1. The combination of 11 stock market cycles and trend which you published in July 1957 was exceptionally accurate through 1953, following which the actual industrial averages far exceeded in amplitude the combination of cycles. The combination also indicates 1956 as the top of the boom and, of course, I appreciate that it will take further market action to establish whether or not you were right in that respect. My question, however, comes down to this: is the excessive



LONG-TERM PRICE PATH OF STOCK PRICES

Lower Range: Without adjustment for changed value of gold dollar.
Upper Range: Adjusted for 59¢ gold dollar.
Chart prepared by Anthony Gaubis & Company, Investment Counselors,
122 East 42nd Street, New York 17, N. Y.

height above your synthesis due to commulative errors in the various cycles based on the data you had available in 1944, or perhaps in imperfect interpretation of that data, or what can the reason be? And whatever the reason, will this distortion of actual vs. synthesis have a tendency to produce either similar or opposite distortions in the future of your projection.

Your copper prices chart in the August issue follows much the same pattern: viz. actual prices far below and far above the projection. What, if anything, is the significance of these facts?

Answer to Question No. 1

Answer: I don't know for sure why the timing of a cycle projection is often better than the strength.

In the stock market I suspect the answer is inflation, which cannot be taken into account in a cycle study, but I am not sure. If the distortion is due to inflation one would expect the distortion to continue - that is, to be at least as many percent higher at time of trough as at time of peak; if inflation increases, probably more. If the distortion is caused by some random event, or other cycles, one would expect a correction of the error.

In this connection look at a chart prepared by Anthony Gaubis on the preceding page.

In copper prices the variation cannot be explained in terms of inflation. The swings *both* ways were much greater than the projection suggested they would be. I do not know why.

Of course, as yet a cycle analysis can pick up only those parts of the different waves that are perfectly regular. Suppose for example we had two-year waves and three-year waves alternately, each with a strength of 10. Unless we were smart enough to notice this regularity in the change of length, we would probably combine the waves and say that we had a cycle that *averaged* 2½ years. Such a cycle would have an average strength of 8 1/3. This is the only part of the 2-,3-,2-,3-, 2-,3-year waves that we could forecast.

Question No. 2

2. Also, in the August issue you show the long term trend of U.S. Manufactures which indicates we are rapidly approaching maturity. In the July issue in discussing long term growth trends you speak of factors that can introduce a new growth cycle. My question in this matter is in two parts (a) as a result of the research undertaken under forced draft during World War II and in the years since then resulting in so many new products and processes, is it not possible that a new growth cycle could be superimposed upon the old? And (b) if the answer is "yes" how long would it take for such a new growth cycle to show up to the point of being a probability?

Answer to Question No. 2

Answer: It is certainly true that there has been unusual growth in the United States during the last two decades. It is *possible* that this is the result of a rebirth of our underlying growth trend. However, if it is, I don't think it is as a result of the forces you suggest, powerful though they be. If we are experiencing a rebirth I should think it would take at least ten more years for an indication and perhaps twenty more years to be sure.

I shall consider the pros and cons of this idea in future installments of *Long Term Growth Trends in the American Economy.*

Question No. 3

3. This question concerns your August article at page 210 in which you speak of cycles in diverse phenomena between which no causal interrelationship is apparent having the same wave length. It would seem to me all of the cycles in the table except sunspots and tree rings do have a causal interrelationship. In other words, any change in the number of family units, I should think, would tend to produce similar changes in the other economic activities.

Taking your statement as correct that there is no causal interrelationship, in which way is my reasoning incorrect?

Answer to Question No. 3

Answer: There is undoubtedly a great deal of interrelationship between various social and economic phenomena. (Which cause which is not so easy to say.) If the relationship were perfect, or nearly perfect, except perhaps for a time lag, the argument for a causual relationship would be much stronger.

The point is, we have *several* cycles only *some* of which are present in each of the various series of figures. To oversimplify, suppose new family units are dominated by 18- and 7-year cycles, construction by 18- and 5-year cycles, gumboes by 7- and 5-year cycles. If new family units *cause* new construction, why doesn't new construction have the 7-year cycles too? How can it pick out *merely* the 18-year cycle in new family units to respond to? How can it *help* responding to the 7-year cycle also? Similarly for the other cycles. No, although it is logical that new construction *should* respond to new family units, it doesn't. It responds merely to one of the cycles to which new family units also respond. The inference is that both new family units *and* new construction respond selectively to environmental cyclic forces.

E. R. D.

SHORT CYCLES IN THE STOCK MARKET

Dear Mr. Dewey:

Thank you for your prompt reply and for the copy of the *Journal of Cycle Research* In which Dr. Wing's article effectively answers my questions about the latitudinal passage of cycles.

In my study of shorter cycles in the stock market so far I have actually worked out the following, using the Dow Jones Industrial Average weekly closings 1953-1957:

3 Week Moving Average
9 Week Moving Average
19 Week Moving Average

Deviations (expressed in %) of:
(a) Data from 9 Week Moving Average
(b) 3 Week Moving Average from 9 Week Moving Average
(c) 9 Week Moving Average from 19 Week Moving Average

These values have been charted.

Time Charts:
5 Week T. C. of (a)
12 Week T. C. of (a)
18 Week T. C. of (a)

Periodic Tables:
9 Week Periodic Table of (b)
9¼Week Periodic Table of (b)
11 Week Periodic Table of (b)
18 Week Periodic Table of (c)

These values have been plotted for totals and by thirds.

The work to date suggests that further refinements should be studied in the ranges 18 Weeks ± .5, 11 Weeks ± .5 and 9 Weeks ± .3 and 5 Weeks ± .5 and I plan to pursue this work as time permits; also to search for cycles of longer lengths in the same figures. The next project will be to look for cycles in individual stocks starting with U. S. Steel.

It appears to me that some of this work might be valuable to anyone who is working along the same or parallel lines. I know I would be interested in similar work covering possible cycles of other lengths or even of the same lengths over a different or longer periods of time. I would be glad to hear from anyone interested in exchanging this kind of information, and will appreciate and thank you in advance for anything you do in getting me in touch with them.

Very Sincerely yours,
Richard A. Hanan

San Francisco 4
California

NOVEMBER CYCLE ROUND-UP

This new department was suggested by my son who said, "People can't remember what you said several months or a year ago about cycles in this and that. Why don't you publish a monthly recap of cycle in various things, together with the latest available figures?"

This struck me as a good idea. If you think so too, I'll continue it.

This issue brings you up to date on stock prices, business failures and wheat prices. Other series will be reported upon in subsequent issues.

E. R. D.

STOCK PRICES

As you know, the synthesis of 11 stock market cycles is *downward* at the present time. It suggests that, if the cycles of the past dominate, the index for the year 1957 should, on the average, be somewhat less than the index for the year 1956 as a whole. Further decline is suggested for 1958, 1959, and 1960.

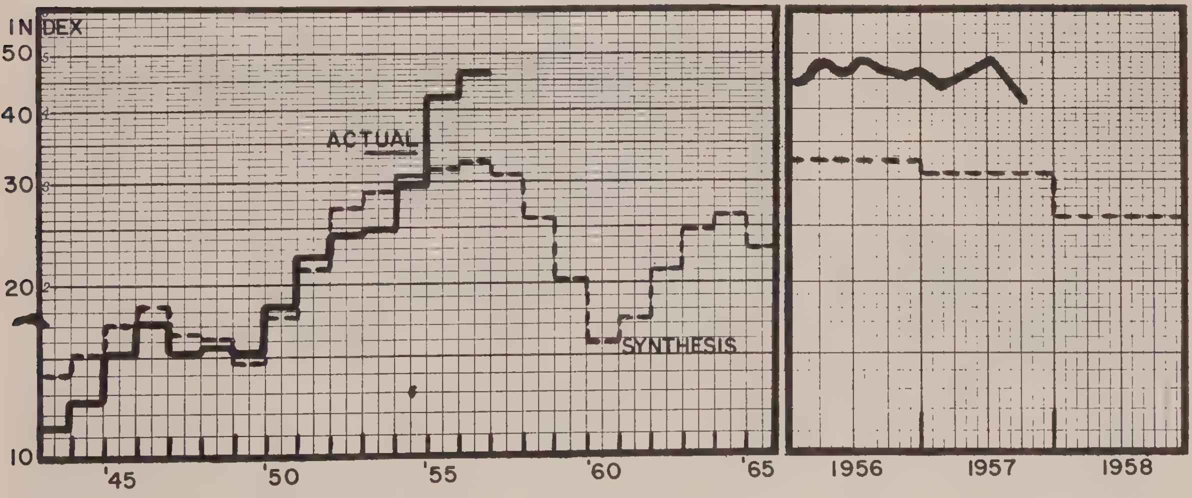
This study does not attempt to pinpoint either the levels or the time of the coming trough. It does however suggest that we are in a period where continued caution is in order.

Actual value of the Standard & Poor's Corporation Combined Index (now 500 stocks) for the year 1956 as a whole was 46.62 (New Index, 1941-43 = 10).

Recent values of the index are:

Month	Index
August, 1957	45.84
September, 1957	43.98
October, 1957	41.00 est.

For further details regarding this study refer to "Trend and Cycles in Stock Prices," *Cycles,* January 1957, pp. 5-12; "The 5.91 or 5.92-Year Cycle in Stock Prices," *Cycles,* April 1957, pp. 93-98; "The Combination of 11 Stock Market Cycles & Trends,"*Cycles,* July 1957, p. 176.



FAILURES

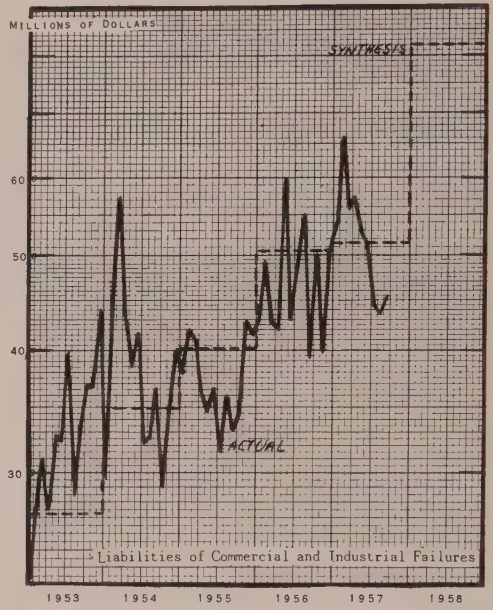
A combination of 5 cycles and estimated trend in the liabilities of commercial and industrial failures is upward at the present time. It suggests that failures should be slightly more in 1957 than in 1956 and considerably more in 1958.

Actual monthly average values of the liabilities of commercial and industrial failures for 1956 were $46,891,00.

Recent values are:

Month	Liabilities
June, 1957	$51,454,000
July, 1957	44,299,000
August, 1957	43,514,000
September, 1957	45,420,000
October, 1957	Not yet available

For further details regarding the study of cycles in failures refer to "Trend and Cycles of Business Failures," *Cycles,* May 1957, pp. 121-139.



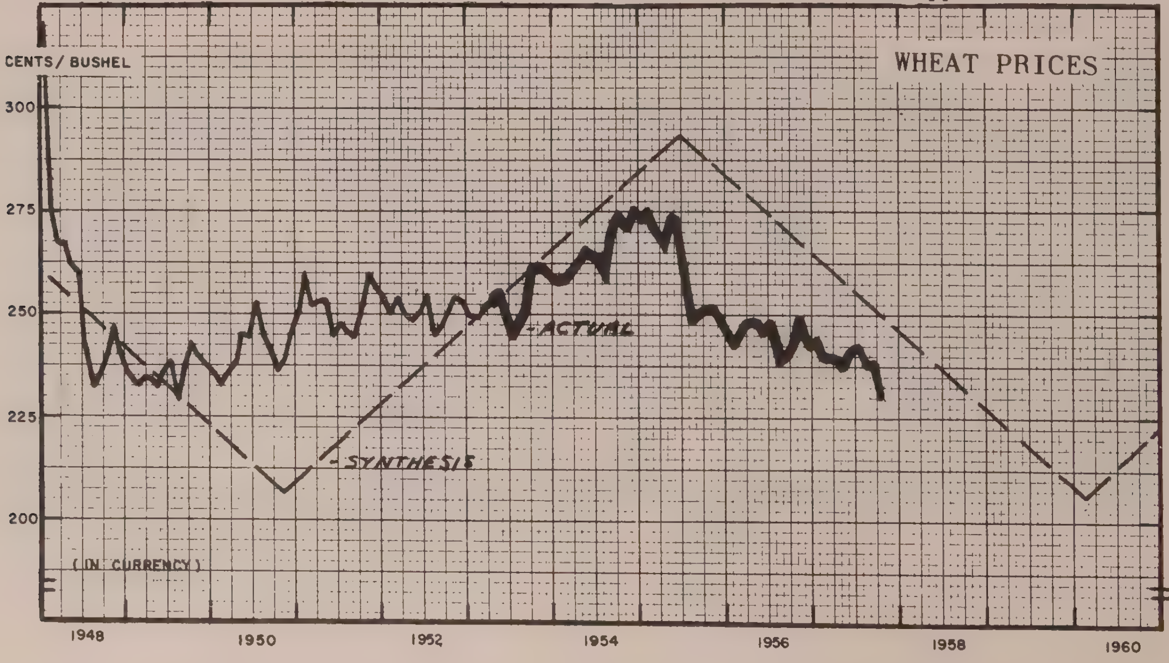
WHEAT PRICES

The 11-year cycle in wheat prices is *downward* at the present time. The odds are 7 to 2 that the price of wheat at next ideal month of trough (February 1960) will be below $2.678, the price quoted for the last ideal time of high.

Recent values for No. 1 Dark Northern Spring Wheat at Minneapolis are:

Month	Price Dollars/bu.
August, 1957	$2.361
September, 1957	2.382
October, 1957	2.300 est.

For further details concerning this cycle see "What's Ahead for Wheat Prices," *Cycles*, September 1957, pp. 229-235.



THE MODIFIED GEISINGER INDICATOR

Background

THE Modified Geisinger Indicator is a series of numbers which, in the past, have gone up and down ahead of corresponding movements of the Federal Reserve Board Index of Industrial Production. Thd Modified Geisinger Indicator thus throws some light on the probabilities of the future.

The F. R. B. Index of Industrial Production measures physical production in the U. S. A. It is a weighted average of tons, yards, gallons, and numbers of things produced each month.

The Modified Geisinger Indicator is the sum of two Indicators, the Geisinger Indicator and a First Difference Indicator.

The Geisinger Indicator was invented by Robert Geisinger. It is derived from figures which are published each month in the *Survey of Current Business*. It is charted for you as Curve A on pages 114 and 115.

Curve B on these same two pages charts the First Difference Indicator, which is merely the amount by which the smoothed F. R. B. Index is above or below the value for the preceding month. The smoothing is effected by means of a centered 3-month moving average and a 2-month moving average posted to the second position.

Curve C charts the sum of the values of Curves A and B. This curve is called the Modified Geisinger Indicator. It suggests in a general way what the F. R. B. Index may do some eight months later.

Curve D charts the values of the F. R. B Index of Industrial Production.

Curve E re-charts curve C, advancing it by 8 months. This advance is for two reasons (1) so that you can more easily compare the past behavior of the Modified Geisinger Indicator with the behavior of the F. R. B. Index, and (2) so that you can have a better idea of what the F. R. B. Index may do in the future.

Forecast

AS expected, the sideways motion has continued. Industrial production for September, seasonally adjusted, was 144. (The value for August was revised upward from 144 to 145.)

The Geisinger Indicator for June 1957 (February 1958 when projected) was -0.2, about the same as for May.

Values for the First Difference Indicator and the Modified Geisinger Indicator are given below.

A sideways motion continues to be indicated.

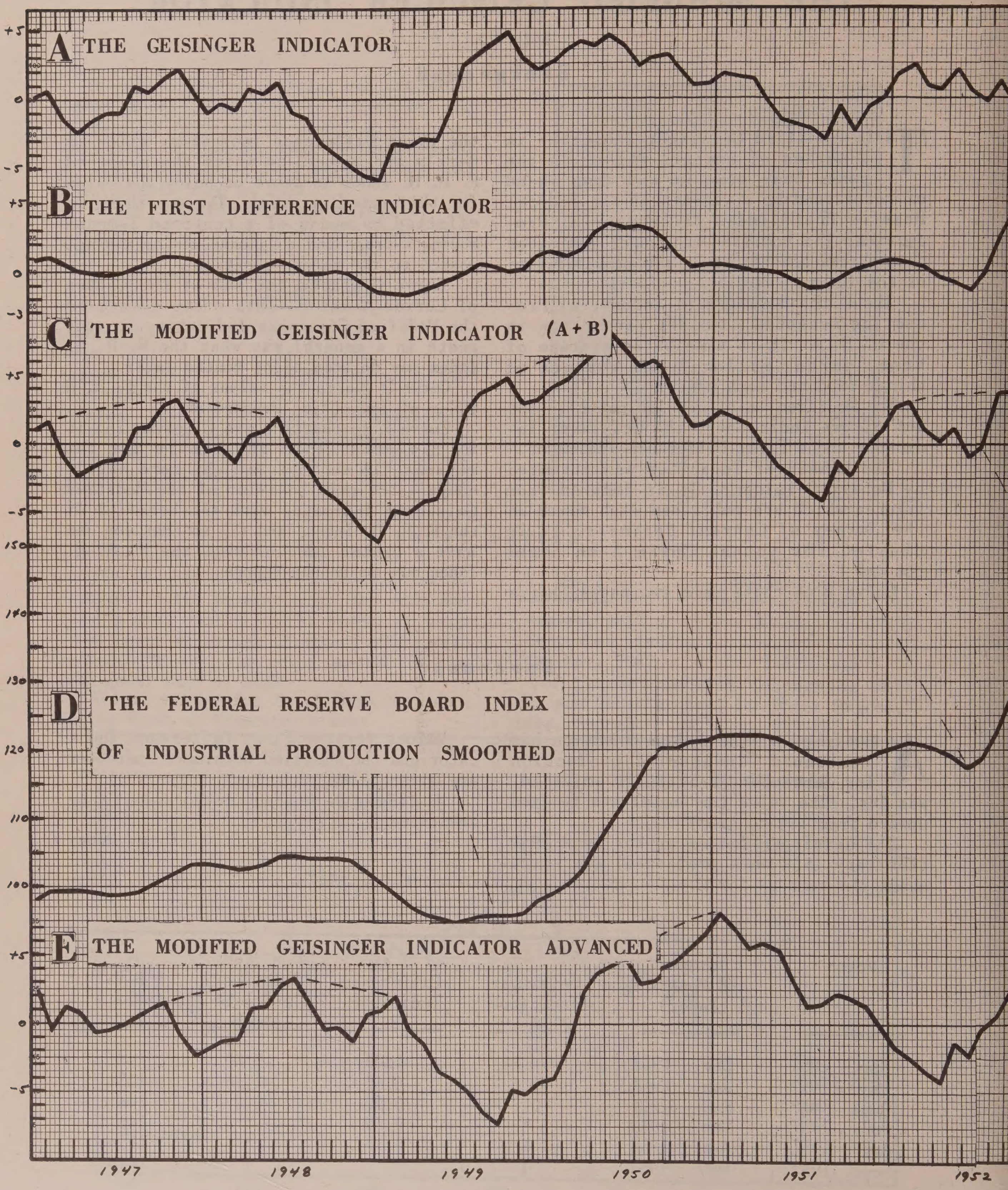
E. R. Dewey

October 24, 1957

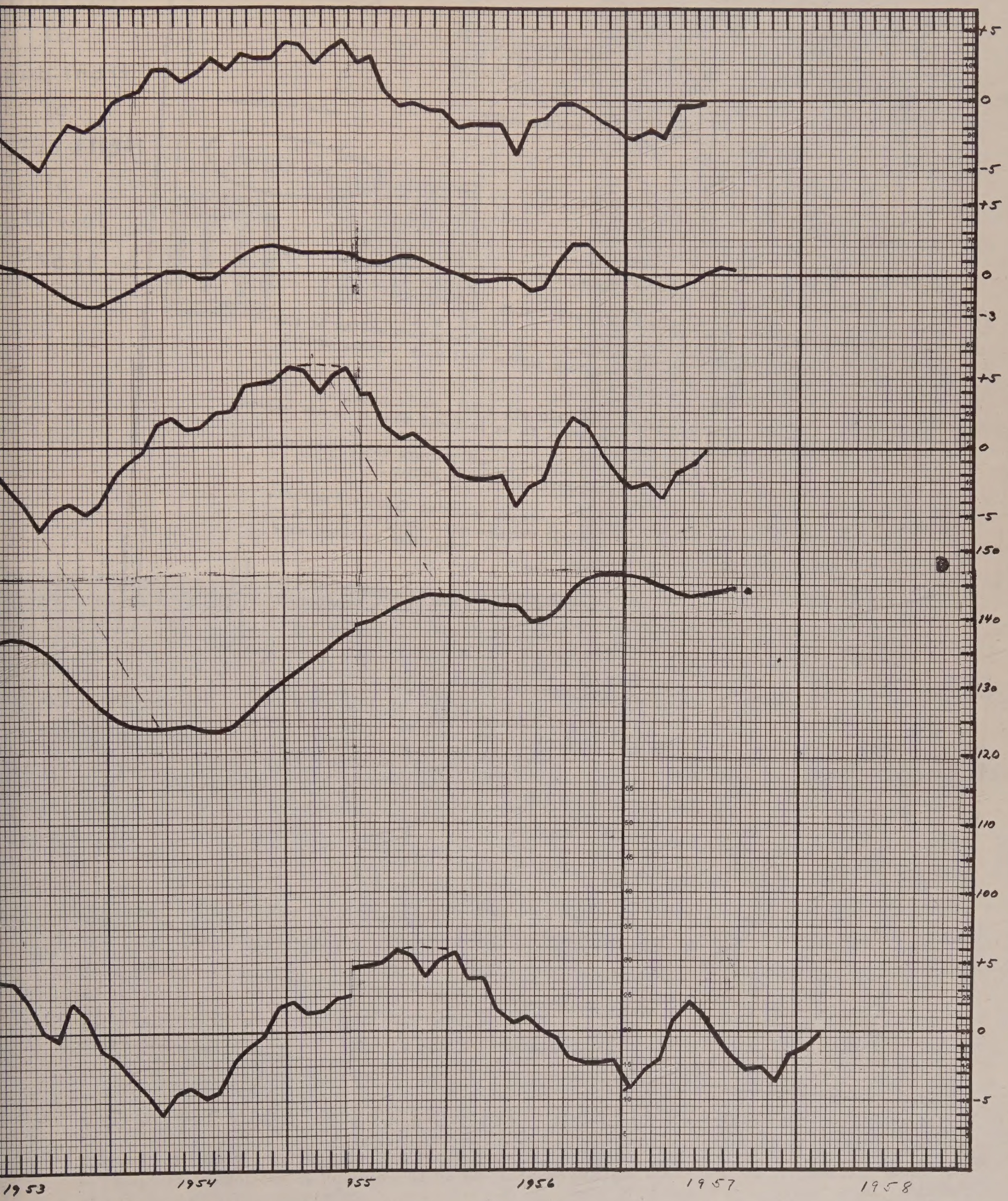
Month	Advanced (8 Months Later)	Geisinger Indicator A	1 st Difference Indicator B	Modified Geisinger Indicator A+B	F.R.B. Index D
Apr. 1957	Dec. 1957	-0.8	-1.00	-1.80	143
May 1957	Jan. 1958	-0.6	-0.66	-1.26	143
June 1957	Feb. 1958	-0.2	0.00	-0.2	144
July 1957	Mar. 1958	*	+0.50	*	144
Aug. 1957	Apr. 1958	*	+0.33	*	145r
Sept. 1957	May 1957	*	*	*	144p.

p = preliminary r = revised * = not yet available

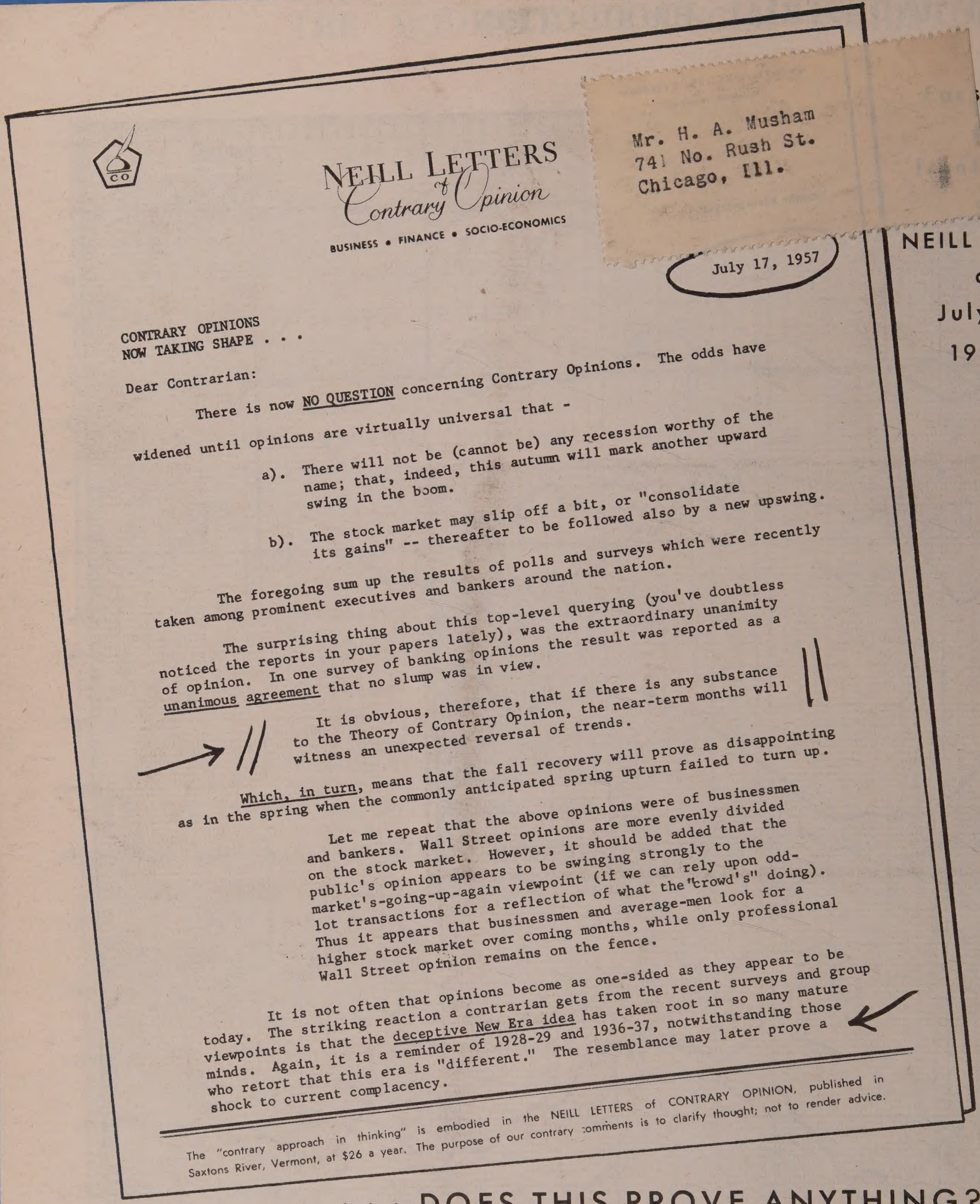
THE MODIFIED GEISINGER INDICATOR



OF INDUSTRIAL PRODUCTION



Turn to page 301 for the forecast.



Mr. H. A. Musham
741 No. Rush St.
Chicago, Ill.

NEILL LETTERS of Contrary Opinion

BUSINESS • FINANCE • SOCIO-ECONOMICS

July 17, 1957

CONTRARY OPINIONS
NOW TAKING SHAPE . . .

Dear Contrarian:

There is now NO QUESTION concerning Contrary Opinions. The odds have widened until opinions are virtually universal that -

a). There will not be (cannot be) any recession worthy of the name; that, indeed, this autumn will mark another upward swing in the boom.

b). The stock market may slip off a bit, or "consolidate its gains" -- thereafter to be followed also by a new upswing.

The foregoing sum up the results of polls and surveys which were recently taken among prominent executives and bankers around the nation.

The surprising thing about this top-level querying (you've doubtless noticed the reports in your papers lately), was the extraordinary unanimity of opinion. In one survey of banking opinions the result was reported as a unanimous agreement that no slump was in view.

It is obvious, therefore, that if there is any substance to the Theory of Contrary Opinion, the near-term months will witness an unexpected reversal of trends.

Which, in turn, means that the fall recovery will prove as disappointing as in the spring when the commonly anticipated spring upturn failed to turn up.

Let me repeat that the above opinions were of businessmen and bankers. Wall Street opinions are more evenly divided on the stock market. However, it should be added that the public's opinion appears to be swinging strongly to the market's-going-up-again viewpoint (if we can rely upon odd-lot transactions for a reflection of what the "crowd's" doing). Thus it appears that businessmen and average-men look for a higher stock market over coming months, while only professional Wall Street opinion remains on the fence.

It is not often that opinions become as one-sided as they appear to be today. The striking reaction a contrarian gets from the recent surveys and group viewpoints is that the deceptive New Era idea has taken root in so many mature minds. Again, it is a reminder of 1928-29 and 1936-37, notwithstanding those who retort that this era is "different." The resemblance may later prove a shock to current complacency.

The "contrary approach in thinking" is embodied in the NEILL LETTERS of CONTRARY OPINION, published in Saxtons River, Vermont, at $26 a year. The purpose of our contrary comments is to clarify thought; not to render advice.

Facsimile
of
front page
of
NEILL LETTER
of
July 17,
1957

. . . DOES THIS PROVE ANYTHING?

We think it shows that the Theory of Contrary Opinion proves out in practice, when you consider the Boom's break-up and the stock market's smash-up in recent weeks. Obviously, one page of comment does not demonstrate fully what our Letters of Contrary Opinion aim to accomplish (which is to avoid the "crowd's" opinions and actions). For further demonstration may we send you our biweekly Letters for 10 weeks (5 Letters) at a nominal cost of $5, which will include Mr. Neill's 136-page book, "The Art of Contrary Thinking"? Address Neill Letters, Saxtons River, Vermont.

(N. B. - No stock market advice or investment counsel offered.)